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Government Expenditure on Income Inequality in South Africa

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Abstract

Purpose: The study aimed the government expenditure on income inequality in South Africa

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: Government expenditure in South Africa, especially on social grants and public services, helps reduce income inequality by redistributing resources to lower-income households. Research shows that increased social welfare spending is linked to lower income inequality, as measured by the Gini coefficient. Public investment in education and transfers also helps improve access to opportunities, although its effectiveness depends on how spending is structured. However, structural factors like labor market disparities and legacy inequalities limit the full impact of government spending on inequality.

Unique contribution to theory, practice and policy: The study of government expenditure on income inequality in South Africa makes a unique contribution to theory by providing a deeper understanding of how fiscal policies, particularly government spending, affect income distribution within developing economies. It enriches existing economic theory by exploring the nuanced relationship between social spending, wealth redistribution, and the reduction of inequality, offering insights specific to South Africa's socio-economic context. In practice, the research highlights the effectiveness of targeted government spending, such as on education, healthcare, and social grants, in addressing income disparities, and offers practical recommendations for enhancing these policies. The study also provides policy implications for South African lawmakers and institutions, suggesting ways to optimize public expenditure to reduce inequality and promote sustainable economic growth. Ultimately, this research informs both economic policymakers and development practitioners, guiding efforts to design more inclusive fiscal policies that foster equitable socio-economic development in South Africa.

Keywords*:* *Government Expenditure, Income Inequality*

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INTRODUCTION

Income inequality, commonly measured by the Gini coefficient, reflects the distribution of income within a society, where 0 indicates perfect equality and 1 (or 100%) indicates total inequality. In developed economies such as the United States, income inequality has grown significantly over recent decades: the U.S. Gini coefficient for household income rose from around the low-0.40s in the early 1980s to roughly 0.48 by 2016, indicating an approximate 20% increase in inequality over that period, with higher values often reported when accounting for all forms of income before taxes and transfers (Pew Research Center, 2020). Research evidence points to rising disparities within demographic and educational groups, showing that inequality increases have been especially pronounced among less educated workers after economic downturns such as the Great Recession (Pew Research Center, 2020). In the United Kingdom (UK), household income inequality often tracked with similar Gini measures remained high in the decades leading up to the COVID-19 pandemic, with relatively modest changes in the Gini value hiding substantial shifts in top income shares (Bourquin, Brewer, & Wernham, 2024). Similarly, Japan historically has exhibited lower Gini coefficients compared with many Western economies; empirical work shows earnings inequality rising within Japan from about 0.24 to 0.29 over several decades, though overall income inequality has remained more stable compared to the U.S. or UK (Nishino, 2025).

In developing economies, income inequality remains a persistent concern as well. Peer-reviewed studies show that many emerging and low-middle income countries experience varied but often high Gini values, shaped by structural factors such as governance, education access, and labor market dynamics (Khandre, 2025). Although economic growth in some developing countries has lifted aggregate incomes, unequal distribution has often accompanied growth, underscoring that rising GDP does not automatically reduce income inequality (Khandre, 2025). For example, countries like Bangladesh, Vietnam, and India exhibit notable within-country Gini disparities even amid expanding economies, illustrating that developing regions face the dual task of growth and equity (Khandre, 2025). Policy frameworks in these contexts often aim at expanding education and healthcare access as mechanisms to reduce inequality, given constraints in inclusive economic opportunities (Khandre, 2025).

For Sub-Saharan African economies, income inequality is among the highest globally, with average regional Gini coefficients typically above the global average, indicating more unequal income distributions relative to both developed and many other developing regions (Voto, 2025). World Bank data suggest that the regional average Gini in Sub-Saharan Africa hovers around 0.43, compared with a global average near 0.38, reflecting entrenched disparities tied to labor market segmentation, limited access to quality education, and structural economic constraints (Voto, 2025). Multiple countries within the region rank among the most unequal in the world, with Gini values exceeding 0.50 in several cases (Voto, 2025). While some long-term data indicate slight declines in average regional inequality over multi-decadal timescales, Sub-Saharan Africa remains highly unequal relative to global norms (Voto, 2025). These patterns underscore that inequality in SSA persists despite interspersed periods of economic growth, highlighting ongoing policy challenges for inclusive development across the region (Voto, 2025).

Government expenditure refers to the total amount of money spent by the government on various sectors within the economy. It includes spending on infrastructure, social welfare, health, education, defense, and other essential services. The primary objective of government expenditure is to promote economic stability, social equity, and sustainable development. Among the various forms of government spending, social welfare programs (such as unemployment benefits, housing subsidies, and food assistance) directly impact income distribution by providing support to low-income households. Studies have shown that countries with higher levels of social welfare spending tend to have lower Gini coefficients, indicating less income inequality, as these programs redistribute wealth from richer to poorer segments of society (Bourguignon, 2019).

In addition to social welfare, public spending on education has significant implications for income inequality. Government investment in education aims to provide equal opportunities for individuals across all socio-economic classes, promoting social mobility. Education spending helps reduce disparities by providing marginalized groups with the skills and qualifications needed to access better-paying jobs, thus reducing income inequality. Similarly, healthcare expenditure plays a crucial role in reducing inequality by improving access to essential health services for the poor, which directly impacts their economic productivity. Lastly, infrastructure investment (in transportation, electricity, and water) creates jobs and supports economic development in underdeveloped regions, further addressing income disparities. These forms of government expenditure are all linked to the Gini coefficient, as they play vital roles in shaping more equitable income distribution across society (Dabla-Norris, 2020).

Problem Statement

Despite South Africa's transition to a democratic and inclusive economy over three decades ago, the country remains one of the most unequal societies in the world when measured by the Gini coefficient, with estimates commonly exceeding 0.63–0.67, significantly higher than most other economies globally (World Bank, 2022). Although government expenditure has been deployed through social grants, education, and expanded public services aimed at redistribution and welfare improvement, these measures have not translated into substantial reductions in overall income inequality (Dabla-Norris, 2020). Moreover, recent analyses reveal that while some components of fiscal spending (such as social protection or education) may modestly impact inequality, the overall distributional effects of total public spending remain ambiguous and under-researched in the South African context (Bhorat & Van der Westhuizen, 2020). This persistent disparity raises critical questions about the effectiveness of current government expenditure patterns in reducing income gaps, particularly given ongoing challenges such as high unemployment, weak economic growth, and structural labor market imbalances (Stats SA, 2021). Therefore, there is a pressing need to empirically investigate how total government expenditure influences income inequality in South Africa, to inform policy reforms that can enhance equity and sustainable socio-economic development.

Theoretical Review

Neo-Classical Theory of Redistribution

The neo-classical theory of redistribution emphasizes the role of government intervention in reducing income inequality by redistributing wealth from wealthier segments to lower-income groups through fiscal policies. According to this theory, government expenditure on public goods, social welfare, education, and health services can play a critical role in improving income distribution. This theory, rooted in the ideas of economists like Arthur Pigou and John Maynard

Keynes, argues that while markets may fail to provide equitable outcomes, government policies can correct these failures by ensuring that wealth is redistributed to achieve social and economic justice. In the context of South Africa, this theory is highly relevant as government expenditure on social services, particularly social grants and welfare programs, is aimed at reducing the stark income inequality present in the country. Studies suggest that these fiscal measures are vital for mitigating the income disparity that characterizes South African society (Dabla-Norris, 2020).

Dependency Theory

Dependency theory posits that economic inequality in developing nations, such as South Africa, is perpetuated by external economic factors that keep these countries dependent on richer, developed nations. Originating from the work of economists like Raúl Prebisch and Andre Gunder Frank, this theory argues that peripheral economies are often locked into cycles of inequality due to their subordinate position in the global economic system. In South Africa, the legacy of apartheid and the continued influence of global market forces make it difficult for government expenditure to effectively reduce income inequality. Despite significant public spending on social welfare and development, external economic pressures, such as global trade imbalances and capital flows, can undermine these efforts, thus limiting the impact of government policies on income distribution. This theory highlights the importance of considering global economic structures when analyzing the effectiveness of domestic fiscal policies in reducing inequality (Bhorat & Van der Westhuizen, 2020).

Human Capital Theory

Human capital theory suggests that investments in education, healthcare, and skills development are crucial for reducing income inequality by enhancing the economic productivity of individuals, particularly in lower-income groups. Developed by Gary Becker, this theory posits that when governments invest in the human capital of its citizens, they enable individuals to access better job opportunities and higher wages, thereby promoting economic mobility and reducing disparities. In South Africa, where educational and healthcare systems are critical to providing opportunities for marginalized communities, government expenditure in these areas can significantly reduce income inequality. By improving access to quality education and health services, the government can equip individuals with the tools necessary to overcome the barriers of poverty and inequality. This theory underscores the importance of human capital development in tackling the structural causes of income inequality in South Africa (Stats SA, 2021).

Empirical Review

Seabela, Ogujiuba, and Eggink (2024) explored the relationship between government expenditure on social grants and income inequality in South Africa, using a Vector Error Correction Model (VECM) with data spanning from 1975 to 2017. Their study aimed to determine how government spending on social welfare programs impacts income inequality, particularly in a country with high inequality levels. The authors found that increased expenditure on social grants significantly reduced the Gini coefficient, indicating a reduction in income inequality. This aligns with previous findings that targeted social welfare programs can alleviate the disparities in income distribution, particularly in developing economies like South Africa. The study revealed that government transfers, such as social grants and unemployment benefits, play a critical role in redistribution by directly transferring wealth to lower-income groups. The authors highlighted that even though there is a modest reduction in inequality, the overall impact could be greater with more inclusive fiscal policies. The study also pointed to the potential for these programs to lift individuals above the poverty line, thus contributing to poverty reduction. Their findings stress the importance of increasing government expenditure on social safety nets to enhance social justice. The study recommended strengthening South Africa's welfare programs to achieve long-term improvements in income equality. Additionally, the authors called for policy reforms that target the most marginalized sectors of society, such as women and rural populations, to increase the effectiveness of social grants. They emphasized the need for strategic fiscal policies that prioritize equity and provide support to low-income households. The authors argued that fiscal policies alone may not fully solve inequality but could be a powerful tool in combination with other economic reforms. As South Africa grapples with growing inequality, their findings suggest that welfare spending should be expanded and carefully designed to promote economic mobility. Moreover, the study recommends enhancing the administrative efficiency of grant distribution to ensure that the benefits reach the intended recipients. This approach could help ensure a sustainable reduction in inequality over time, paving the way for broader socioeconomic development

Nuru (2021) evaluated how different components of government expenditure, including investment and consumption, influence income inequality. The results demonstrated that expansionary government spending shocks significantly increase labor share and reduce inequality, with the largest effects stemming from public investment as opposed to consumption. Nuru argued that investment spending in areas such as infrastructure, education, and health has the potential to address inequality in South Africa by improving opportunities for low-income and disadvantaged groups. The findings indicated that public investment in infrastructure can stimulate economic growth, which indirectly reduces income inequality by creating jobs and improving productivity across the economy. The study also observed that higher spending on public services, such as education and health, directly benefits lower-income households by providing them with essential services at little or no cost. This not only improves their quality of life but also enhances their long-term income potential. Nuru's analysis found that while consumption-based expenditure has some effect, it is investment-focused spending that leads to the most substantial reduction in inequality. The study recommended that South African policymakers should prioritize capital investment over current consumption in fiscal budgets to stimulate inclusive growth. It also suggested that social infrastructure investments should be specifically targeted at rural and disadvantaged areas where inequality is most pronounced. The study emphasized the need for structural reforms that would enable sustainable economic growth through investments in human capital and physical infrastructure. This would not only foster economic development but also contribute to income equality by providing opportunities for previously marginalized groups. Overall, the study called for pro-poor investment policies that focus on education, healthcare, and job creation in key sectors of the economy. Nuru concluded that expansionary fiscal policies, especially those focused on long-term public investments, are essential to addressing inequality in South Africa.

Seabela (2024) explore the determinants of income inequality in South Africa, focusing on government spending on social grants and public services. The authors found a clear correlation between increased social grant expenditure and a reduction in income inequality, particularly for the bottom income quintiles. However, the study revealed that while social welfare programs have a redistributive effect, they are not sufficient to tackle inequality at its roots. The findings suggested that a more comprehensive fiscal policy that combines social transfers with investments in education and healthcare is necessary to reduce the structural causes of inequality. The study recommended increasing education spending to improve social mobility, particularly among disadvantaged groups, and suggested healthcare reforms to provide better access to services for the poor. Additionally, the study stressed the importance of inclusive economic policies that promote growth and job creation. These measures would complement the redistributive effects of government spending and help build a more equitable economy. Seabela et al. concluded that while fiscal policies such as social grants have a role to play, structural economic reforms targeting the broader causes of inequality are essential for achieving long-term income equality

Mokoena (2023) examined the role of fiscal policy in poverty reduction in South Africa, with a particular focus on government expenditure on education and health. The study revealed that government investment in education and healthcare plays a critical role in reducing income inequality by enhancing human capital. The study's results indicated that increased education spending leads to improved skills and better job opportunities for lower-income groups, thus reducing income gaps. Similarly, higher healthcare expenditure improves the overall health of the population, which is crucial for enhancing economic productivity. Mokoena's analysis suggested that fiscal policies targeting education and health would not only reduce income inequality but also promote long-term economic growth. The study recommended that the South African government prioritize these areas in its fiscal policies, alongside broader economic reforms aimed at job creation and wage increases. Mokoena's research emphasized that human capital development through government expenditure could be a powerful tool in addressing South Africa's high levels of inequality. The study concluded by recommending increased public spending on education and health as key strategies for reducing income inequality in South Africa

Furceri (2018) analyzed the long-term impact of government expenditure on income inequality across emerging economies, including South Africa. Using panel data analysis, the authors concluded that expansionary fiscal policies particularly those focusing on public investment in infrastructure and social services reduce income inequality over the long term. The study found that investment-focused government spending had the most pronounced redistributive effects, suggesting that infrastructure development, education, and health services should be the priority in fiscal policy. Furceri recommended that South Africa, as an emerging economy, should implement expansionary fiscal policies aimed at public investment to reduce inequality. They argued that targeted fiscal policies could stimulate growth in low-income regions, ultimately addressing the structural causes of inequality. The study also highlighted the need for social protection programs to be integrated with investment in physical infrastructure. Furceri (2018) concluded that increased public spending on education, health, and infrastructure could significantly reduce South Africa's income inequality.

Zerihun (2025) explored the impact of public expenditure on income inequality in South Africa through a comparative analysis of Sub-Saharan African economies. The study found that public spending on education, health, and social protection has a measurable effect on lowering inequality in South Africa. However, Zerihun also found that while redistributive government spending is effective in reducing income inequality, its impact is limited by factors such as unemployment, low wages, and economic growth challenges. The study recommended increased public spending on social safety nets, education, and healthcare, with a particular focus on marginalized groups such as women and rural communities. Zerihun suggested that pro-poor fiscal policies should be designed to create economic opportunities for the poorest segments of the population. The study concluded that infrastructure investment and job creation programs are also essential for reducing inequality in South Africa, as these would complement government transfers and services. Zerihun's findings underscore the need for structural reforms alongside fiscal measures to achieve sustainable reductions in income inequality.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low-cost advantage as compared to field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

FINDINGS

The results were analyzed into various research gap categories that is conceptual, contextual and methodological gaps

Conceptual Gaps

One key conceptual gap is the need to explore how different components of government expenditure (such as education, health, and infrastructure) interact and complement each other in reducing income inequality. While many studies focus on individual components like social grants or education spending, they rarely examine how these elements work together within a comprehensive fiscal policy to create long-term, sustainable inequality reduction. Additionally, there is a gap in understanding the mechanisms through which government expenditure affects inequality in the South African context, particularly in terms of labor market outcomes (e.g., job creation, wage disparity). Nuru (2021) and Seabela (2024) point to the importance of investment-focused spending, but further investigation is needed to understand how such investments could be more efficiently targeted.

Contextual Gaps

The contextual gap lies in the limited exploration of local conditions, such as economic growth challenges, unemployment, and poverty levels in South Africa, which affect the success of government expenditure in reducing income inequality. For instance, Zerihun (2025) tregion-specific issues. Furthermore, studies like Mokoena (2023) emphasize the importance of human capital development but lack a deep dive into how specific South African policies can directly target the most vulnerable communities, such as rural women or the informal labor market.

Geographical Gaps

The geographical gap in existing studies is the need for comparative analyses that not only focus on South Africa but also examine its position relative to other developing economies in the Sub-Saharan region. Many studies, such as Zerihun (2025), provide comparative insights but stop short of offering cross-country comparisons that could illuminate what best practices South Africa could adopt from neighboring nations with similar economic structures. Additionally, while some studies cover broader Sub-Saharan Africa, there is a lack of detailed studies on regional disparities within South Africa itself (e.g., urban vs. rural differences) and how government expenditure may affect inequality differently across provinces or regions.

CONCLUSION AND RECOMMENDATIONS

Conclusions

The impact of government expenditure on income inequality in South Africa has been a central concern in addressing the country's high levels of inequality. Numerous empirical studies have shown that targeted government spending, particularly in areas like social grants, education, healthcare, and infrastructure, plays a crucial role in reducing income inequality. Government transfers, such as social grants, directly redistribute wealth to low-income households, helping to alleviate poverty and mitigate inequality. However, while these social welfare programs provide immediate relief, they do not fully address the structural factors contributing to long-term inequality, such as unemployment, low wages, and economic growth challenges. Additionally, public investment, particularly in infrastructure and human capital, has been identified as a key driver for reducing inequality by promoting economic growth and job creation, which benefit marginalized communities.

Despite the positive effects of government expenditure, the overall impact remains modest due to limited fiscal resources, inefficiencies in grant distribution, and the complex interplay of broader economic challenges. Therefore, for South Africa to achieve sustained reductions in income inequality, there is a need for comprehensive fiscal policies that combine social safety nets with long-term investments in education, health, and infrastructure. Furthermore, policy reforms must focus on addressing the structural causes of inequality by promoting inclusive economic growth and ensuring that government expenditure is more effectively targeted at the most vulnerable groups. South Africa's efforts to reduce inequality will require not just expanding public spending but also ensuring better targeting, administrative efficiency, and structural reforms that foster economic mobility for all its citizens.

Ultimately, the country's success in reducing income inequality will depend on a balanced approach to government expenditure, combining short-term redistribution with long-term strategies aimed at empowering disadvantaged communities through education, job creation, and access to quality public services. Achieving this balance will require strong political will, effective governance, and the active involvement of all sectors of society in shaping a more equitable future for South Africa.

Recommendations

Theory

The theoretical landscape surrounding the impact of government expenditure on income inequality in South Africa can be enriched by incorporating multidimensional inequality frameworks and human capital theory. Currently, much of the research focuses primarily on income inequality, but a multidimensional approach would account for other factors such as access to education, healthcare, housing, and social mobility. This would provide a more comprehensive understanding of how government expenditure impacts inequality in South Africa. Furthermore, human capital theory, which emphasizes the role of education and health in improving economic productivity and reducing inequality, could be more deeply integrated into theoretical frameworks. This would help explore how government investment in human capital, such as education and healthcare, leads to long-term reductions in inequality by improving individuals' economic opportunities. Developing these comprehensive theoretical models could enhance the understanding of the dynamic relationship between fiscal policies and income distribution, providing a more nuanced basis for policy recommendations.

Practice

In practice, targeting government expenditure more effectively is crucial for reducing inequality. While social grantshabetter targeting of these transfers to ensure they reach the most marginalized groups, such as rural populations, women, and youth. This can be achieved through data-driven approaches to identify the most vulnerable households and improve the administrative efficiency of grant distribution to minimize leakages. In addition, public investment in infrastructure and human capital development should be prioritized, especially in disadvantaged areas. Investment in education, healthcare, and infrastructure not only reduces income inequality by improving access to essential services but also stimulates long-term economic growth, creating more opportunities for marginalized communities. Lastly, government spending should also be aligned with policies that promote job creation, particularly through investment in green technologies, small business development, and infrastructure projects that create sustainable employment opportunities.

Policy

Policy reforms should aim to ensure that fiscal policies are not only aimed at providing short-term relief but also at creating long-term solutions to reduce income inequality. This can be achieved by adopting a progressive tax system that ensures higher-income individuals and corporations contribute more to funding social welfare programs, thereby redistributing wealth more equitably. The government should also consider pro-poor investment policies that target economic growth in regions with the highest poverty rates, such as rural areas and informal sectors. Additionally, policy coordination is essential, where fiscal policies focused on poverty alleviation are integrated with broader economic policies aimed at promoting inclusive growth. Strengthening the monitoring and evaluation mechanisms for government spending is equally important to ensure that the redistributive effects of these programs are maximized. By incorporating a more targeted and efficient approach to public spending, South Africa can achieve better outcomes in reducing inequality.

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